ECONOMIC COMMENTARY

Investment Growth in Alberta is Expected to Weaken in 2013

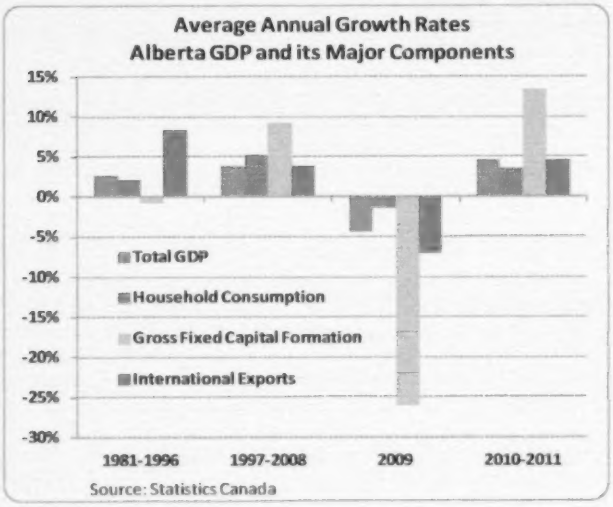
March 13, 2013

Highlights:

Capital investment has had the largest impact on Alberta's economic growth since the mid nineties. The rapid growth in investment since 1996 as well as the large decline during the recession and subsequent resurgence can be largely attributed to strong energy prices and technological breakthroughs. For 2013, investment is not expected to be a major driver of economic growth as energy investment weakens.

Alberta
Government

Of the three largest components of Alberta's Gross Domestic Product (GDP), household consumption, international exports and gross fixed capital formation (or capital investment), investment has had the largest impact on Alberta's economic performance since the mid nineties. Whereas in the 1980's and early 1990's international exports drove the Alberta economy, between 1996 and 2008, capital investment accounted for 70% of Alberta's overall GDP growth, and investment was also by far the largest contributor to Alberta's large GDP decline in 2009 and its subsequent recovery.



Statistics Canada has recently released preliminary investment estimates for 2012 and investment intentions for 2013, based on its private and public investment survey that was conducted between October 2012 and January 2013. Investment includes spending on both structures and on machinery and equipment.

The 2012 estimates suggest that investment again provided a major boost to the Alberta economy in 2012, with the actual value (not adjusted for cost inflation) rising 9.1% to $98.2 billion. However, in 2013 investment is expected to rise only 2.4% to $100.6 billion. When adjusting for cost inflation, the investment contribution to 2013 GDP growth is expected to be very weak or even slightly negative.

During Alberta's investment boom, which lasted from 1996 to 2008, the value of capital investment spending quadrupled. Oil and gas prices rose strongly over that period which led to surging investment in the energy sector, especially in the oil sands. Oil sands investment was also impacted by technological breakthroughs, such as the Steam-Assisted Gravity Drainage process. The wealth effects of higher energy prices also spilled over onto other sectors, such as residential housing, transportation (especially pipelines) and public institutions (especially provincial government, education and healthcare).

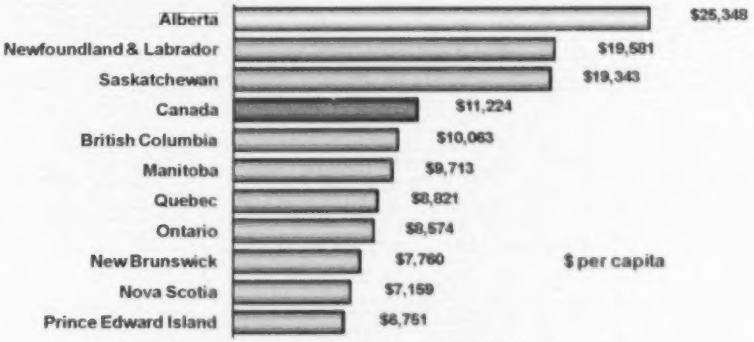
Within in the oil and gas sector, investment for conventional oil and gas projects rose from $8.1 billion in 1996 to $19.4 billion in 2008, while oil sands investment surged from just over $1 billion in 1996 to $20.7 billion by 2008. The energy sector's share of total investment in Alberta averaged 45% over that time period.

During the global recession energy prices dropped sharply and it also became much harder to obtain financing for new projects. In 2009, total investment spending fell by nearly 27%, and oil and gas investment by 45% as many previously announced large projects were put on hold. However, investment bounced back strongly in the subsequent two years and by 2011 investment spending had reached new highs, as oil and gas investment doubled.

In 2012, strong growth in capital investment in Alberta was mostly the result of growth in non-energy sectors, such as manufacturing (up 43%), finance and insurance (up 42%), information and culture (up 38%), utilities (up 33%), and housing (up 18%). Investment by the energy sector rose 3.1% to just over $49 billion, as strong growth in oil sands investment (up 11%) and oil and gas services (33%) was nearly offset by an 8% decline by the conventional oil and gas sector. In 2012, oil sands investment accounted for one-quarter of total Alberta investment.

Alberta accounted for one-quarter of total investment in Canada in 2012. As a result, Alberta leads all provinces on a per capita basis, with an estimated $25,348 capital investment per person, more than double the Canadian average of $11,324 per capita and 23% higher than the number two province, Newfoundland and Labrador.

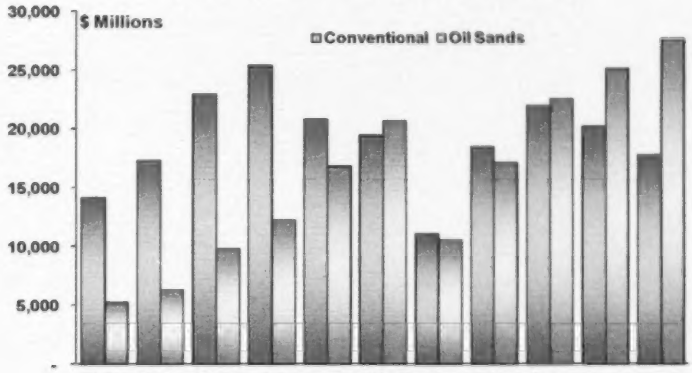
Investment per Capita in 2012



Sources: Statistics Canada and Alberta Enterprise and Advanced Education

The companies that were surveyed by Statistics Canada intend to spend $100.6 billion in Alberta in 2013, up from $98.2 billion in 2012. Investment by the conventional oil and gas sector is expected to decline by 12% while oil sands investment is projected to increase by nearly 10%. However, the recent weakening in crude oil prices, and especially in the Western Canadian Select heavy oil price, has led to increased uncertainty about the near-term viability of new large oil sands projects and it is possible that oil sands investment in 2013 could come in lower than the $27.6 billion that is expected.

Alberta Oil & Gas Investment



* Intentions
Source: Statistics Canada

Most of the expected investment growth in 2013 could come from the service sector. The largest service sector from an investment perspective is the transportation and warehousing sector which is dominated by pipeline investment.

After growing by 18% in 2012, investment by the transportation and warehousing sector could grow another 22% in 2013 to $6.8 billion. Other strong growing service sectors are wholesale trade (up 30% in 2013) and finance and insurance (up 20%). Manufacturing investment is projected to rise 16%, as a result of a 48% increase for the chemicals sub-sector.

In summary, Alberta continues to lead the country in per capita investment spending. Capital investment has been the largest driver of the Alberta economy since the mid nineties, and investment growth has been largely driven by rapidly rising oil sands investment. However, investment could be a drag on economic growth in 2013 as total oil and gas investment is expected to see little change.

Private & Public Investment in Alberta
Capital Expenditures, 2008 - 2013 ($ millions)

SECTOR	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Estimate	2013 Intentions	% Change 2011-2012	% Change 2012-2013
TOTAL	**89,744**	**65,695**	**81,343**	**90,026**	**98,193**	**100,557**	**9.1%**	**2.4%**
Structures	65,155	44,707	61,026	68,732	76,605	77,595	11.5%	1.3%
Machinery & Equipment	24,589	20,988	20,316	21,294	21,588	22,962	1.4%	6.4%
Housing	**13,403**	**10,402**	**13,461**	**12,468**	**14,696**	**15,206**	**17.9%**	**3.5%**
Primary Industries	**44,319**	**25,042**	**38,179**	**48,301**	**49,833**	**49,857**	**3.2%**	**0.0%**
Agriculture and Forestry	1,190	1,107	1,118	1,295	1,341	1,320	3.5%	-1.6%
Mining and Oil & Gas Extraction	43,128	23,934	37,062	47,006	48,492	48,537	3.2%	0.1%
Oil & Gas Extraction	**40,111**	**21,580**	**35,623**	**44,604**	**45,367**	**45,409**	**1.7%**	**0.1%**
Conventional Oil & Gas	**19,448**	**11,029**	**18,467**	**22,013**	**20,214**	**17,782**	**-8.2%**	**-12.0%**
Oil Sands	**20,663**	**10,551**	**17,155**	**22,591**	**25,154**	**27,627**	**11.3%**	**9.8%**
Support Activities for Mining and Oil and Gas	2,559	2,019	1,116	2,130	2,829	2,827	32.9%	-0.1%
Utilities & Construction	**4,348**	**5,618**	**5,238**	**5,603**	**6,860**	**6,747**	**22.4%**	**-1.6%**
Utilities	2,631	3,805	3,878	4,072	5,413	5,316	32.9%	-1.8%
Construction	1,718	1,812	1,360	1,531	1,446	1,431	-5.5%	-1.1%
Manufacturing	**3,113**	**1,562**	**1,462**	**1,817**	**2,597**	**3,023**	**42.9%**	**16.4%**
Food & Beverages	131	122	82	99	183	187	85.3%	2.0%
Forest Products	185	77	161	278	337	295	21.4%	-12.6%
Primary & Fabricated Metals	232	271	202	160	244	241	53.1%	-1.6%
Machinery	120	141	157	167	287	244	71.7%	-14.9%
Chemicals & Chemical Products	n/a	268	357	630	800	1,186	27.0%	48.3%
Petroleum & Coal Products	n/a	468	272	280	438	491	56.5%	12.1%
Other Manufacturing	n/a	278	302	313	454	453	45.2%	-0.2%
Business & Consumer Services	**16,088**	**14,617**	**14,145**	**13,569**	**15,898**	**17,935**	**17.2%**	**12.8%**
Transportation & Warehousing	5,765	4,674	3,937	4,685	5,548	6,789	18.4%	22.4%
Information & Cultural Industries	1,229	1,362	1,430	1,320	1,826	1,780	38.3%	-2.6%
Wholesale Trade	843	814	961	908	989	1,283	8.9%	29.7%
Retail Trade	1,275	1,088	1,217	1,122	1,410	1,542	25.7%	9.3%
Finance & Insurance	1,890	1,256	1,689	746	1,092	1,306	46.2%	19.7%
Real Estate & Rental & Leasing	2,931	2,704	2,720	2,100	2,031	1,956	-3.3%	-3.7%
Professional, Scientific & Technical Services	690	739	591	780	1,006	1,028	29.0%	2.2%
Other Services	1,465	1,979	1,600	1,906	1,997	2,251	4.8%	12.7%
Institutions	**8,473**	**8,456**	**8,857**	**8,269**	**8,310**	**7,790**	**0.5%**	**-6.3%**
Educational Services	1,682	1,882	1,859	1,460	1,534	1,432	5.1%	-6.6%
Health Care & Social Assistance	1,407	1,124	1,392	1,207	984	1,020	-18.5%	3.7%
Public Administration	5,384	5,450	5,606	5,602	5,793	5,339	3.4%	-7.8%
Investment per Capita	**24,983**	**17,887**	**21,844**	**23,828**	**25,348**			

Source: Statistics Canada, Catalogue #61-205